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October 27, 2004

**VIA HAND DELIVERY**

Mr. George N. Dorn, Jr.  
Executive Director  
Public Service Commission of South Carolina  
Synergy Business Park, Saluda Building  
101 Executive Center Drive  
Columbia, SC 29210

**Re: SCE&G Rate Case  
Docket No. 2004-178-E**

SO. CAROLINA  
COURT REPORT  
2004 OCT 27 PM 3:32  
P.F. 100-100

Dear Mr. Dorn:

Enclosed for filing please find the Surrebuttal Testimony of Dr. David Dismukes. Please stamp the extra copies provided as proof of filing and return them with our courier. By copy of this letter we are serving the same on counsel for all interested parties.

Yours truly,

ROBINSON, MCFADDEN & MOORE, P.C.

Frank R. Ellerbe, III

FRE/mfc  
Enclosures

cc/enc: Douglas C. Turner, Esquire  
Catherine D. Taylor, Esquire (via hand delivery)  
Francis P. Mood, Esquire (via hand delivery)  
Parties of Record (via facsimile and U.S. Mail)

**POSTED**  
DW102804

**SURREBUTTAL TESTIMONY OF**

**DAVID E. DISMUKES, PH.D.**

**ON BEHALF OF**

**COLUMBIA ENERGY LLC**

**DOCKET NUMBER 2004-178-E**

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**I. INTRODUCTION**

**Q WOULD YOU PLEASE STATE YOUR NAME?**

**A** My name is David E. Dismukes. I am the same person that previously filed direct testimony in this proceeding on behalf of Columbia Energy LLC ("Columbia").

**Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

**A** The purpose of my surrebuttal testimony is to address a number of issues raised by all of the South Carolina Electric & Gas Company ("SCE&G" or "the Company") witnesses that rebutted my direct testimony. These Company witnesses include Mr. Lorick, Dr. Wright, Mr. Lynch, and Mr. Marsh.

**Q WOULD YOU PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY?**

**A** I disagree with a number of the positions that have been offered by the Company in its rebuttal of my direct testimony. There are four areas addressed within the Company's rebuttal with which I take issue. These include:

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1 (1) The Company has inappropriately mischaracterized my direct  
2 testimony in several important ways.

3 (2) I disagree with the Company's position that the issues I raised in  
4 my direct testimony have been completely decided upon by this  
5 Commission and that the only issue in this proceeding is essentially  
6 to ensure that there are no inappropriate or excessive costs  
7 associated with the development of the Jasper unit.

8 (3) The Company refuses to address, or provide firm quantitative detail  
9 on the ratepayer impacts from the perspective of this rate case, and  
10 its proposed rates. The Company attempts to confuse the issue by  
11 talking about unsubstantiated long-run benefits that are indefinite  
12 and unquantified.

13 (4) The Company continues to hide behind the results of its past RFP  
14 process, but refuses to provide any details on that process.

15 (5) The Commission's past decision associated with the disallowance  
16 of the excess system capacity created by the Summer Nuclear  
17 Facility is relevant to this proceeding.

18 **Q HAVE YOUR RECOMMENDATIONS IN THIS PROCEEDING CHANGED**  
19 **AFTER REVIEWING THE COMPANY'S REBUTTAL?**

20 **A** No they have not. The Company has not provided any additional  
21 information in its rebuttal testimony that sheds any light on the issue of  
22 whether the Jasper Generation Facility will be a used and useful asset for  
23 ratepayers in the period upon which current rates will be established. I

1 respectfully disagree with all of the Company's major rebuttal positions,  
2 most importantly with the contention that the Commission has already  
3 decided the reasonableness of recovering the additional capacity  
4 associated with the Jasper Generation Facility into rates.

5 **Q HOW IS THE REMAINDER OF YOUR SURREBUTTAL TESTIMONY**  
6 **ORGANIZED?**

7 **A** The remainder of my surrebuttal testimony is organized into the following  
8 sections:

- 9 • Section II: The Company's Mischaracterization of Dr. Dismukes'  
10 Direct Testimony
- 11 • Section III: The Commission Did Not Give the Company Carte  
12 Blanche Approval for the Recovery of the Entire Investment of the  
13 Jasper Generation Facility
- 14 • Section IV: The Company Refuses to Provide Quantitative  
15 Evidence that Current Customers Will Benefit from the Additional  
16 Capacity Developed at the Jasper Generation Facility
- 17 • Section V: The Company Continues to Unfairly Rely Upon its Past  
18 RFP Process as a Defense
- 19 • Section VI: The Summer Disallowance Decision is Appropriate for  
20 Consideration in this Proceeding
- 21 • Section VII: Conclusions

1 **II. THE COMPANY'S MISCHARACTERIZATION OF DR. DISMUKES'**  
2 **DIRECT TESTIMONY**

3  
4 **Q HOW HAS THE COMPANY MISCHARACTERIZED YOUR DIRECT**  
5 **TESTIMONY?**

6 **A** The Company's rebuttal, as well as their most recent Motion to Strike  
7 portions of my testimony, mischaracterizes and misrepresents my  
8 positions in a number of important ways. This includes:

9 (1) My direct testimony never claims that the off-system sales to the  
10 North Carolina Electric Membership Corporation ("NCEMC") were  
11 unit-contingent. I have acknowledged that the sale was a system  
12 sale on a number of instances in my direct testimony.

13 (2) The Company inappropriately suggests that I have disparaged this  
14 Commission's past decision in the Siting proceeding because I  
15 refer to the economies of scale benefits claimed by the Company  
16 as "purported." This representation of my testimony is not accurate  
17 and is simply a distraction from the real issue that the Company  
18 cannot, or will not, provide firm evidence that these benefits exist.

19 **Q THE COMPANY CLAIMS THAT YOU BELIEVE THE NCEMC OFF-**  
20 **SYSTEM SALES ARE UNIT-SPECIFIC, DID YOU SAY THAT IN YOUR**  
21 **DIRECT TESTIMONY?**

22 **A** No. The Company has completely mischaracterized my testimony on this  
23 point. For instance, in its rebuttal testimony the Company asks the  
24 question "In its testimony and in its discovery requests, Columbia Energy  
25 infers that the NCEMC sales are unit sales from Jasper and not system

1 sales as the Company has asserted." [Lorick Rebuttal Testimony, 9:8-11.]

2 If you review my direct testimony, particularly on page 40, I clearly state:

3 While the Company has not allowed Columbia Energy to  
4 review the contracts, it would appear from the discovery  
5 responses provided by the Company, as well as the NCEMC  
6 RFP, that was ultimately awarded to the Company, that the  
7 sale to North Carolina is a system sale. [Direct Testimony  
8 of David E. Dismukes, 40: 18-21, *emphasis added*.]

9  
10 **Q HOW IS THE DEVELOPMENT OF THE ADDITIONAL CAPACITY AT**  
11 **THE JASPER FACILITY RELATED TO THE NCEMC CONTRACTS?**

12 **A** The Company has noted in both the Siting proceedings and the last rate  
13 case that the purpose of the NCEMC sales are to support the investment  
14 in the additional capacity at the Jasper Facility. There would be no reason  
15 to enter into the system sales if the additional Jasper capacity had not  
16 been developed. It is the additional system capacity, created by the  
17 additional capacity at Jasper that is supporting this contract.

18 **Q THE COMPANY NOTES THAT IT MUST PROVIDE POWER TO NCEMC**  
19 **UNDER ITS CONTRACTS REGARDLESS OF WHETHER JASPER IS**  
20 **RUNNING OR NOT. DOES THIS APPEAR TO BE THE CASE?**

21 **A** Yes. In fact, the Company will be providing power under the terms of the  
22 contract even though Jasper is forecasted to run very little throughout the  
23 year. Exhibit DED-SR-1 presents a table from the Company's most recent  
24 fuel forecast that estimates the capacity factor, heat rate, generation  
25 amount, fuel cost, and fuel use for the Jasper facility. As seen from the  
26 Table, the Jasper facility is forecasted to run at a capacity factor of 26  
27 percent for the remainder of 2004 (May to December) and only 23.5

1 percent (annual average) for 2005. Thus, it would appear from the  
2 Company's own dispatch analysis that Jasper will be called upon very  
3 infrequently for system use.

4 **Q WAS IT YOUR INTENT TO DISPARAGE THIS COMMISSION'S PAST**  
5 **DECISIONS BY REFERING TO THE COMPANY'S CLAIMED**  
6 **ECONOMIES OF SCALE AS "PURPORTED"?**

7 A No. I referred to these savings as "purported" because, based upon the  
8 information that I have been able to review in this record, they are  
9 unsupported by the Company. The Company has had every opportunity  
10 in discovery and its rebuttal testimony to provide both its original and any  
11 updated information supporting these economies of scale. In both  
12 instances, it has refused to provide any information.

13 **Q WHY DO YOU THINK THIS IS AN IMPORTANT ISSUE FOR THE**  
14 **COMMISSION TO REVIEW?**

15 A This rate case is the time in which the Company has proposed to move  
16 the entire Jasper Generating Facility into retail rates as a plant that is in  
17 service (i.e., operational). The Company has repeatedly justified its  
18 decision to build the Jasper facility at its current size based upon the  
19 argument that there were economies of scale for building a larger facility.  
20 Proving this issue is not one that is reserved for a Siting proceeding only,  
21 nor the last rate case which addressed a CWIP issue. Since this is the  
22 proceeding where the entire plant will be moved formally into rates; all  
23 information, data and analyses supporting the benefits of constructing this

1 facility at its current size and its reported costs should be provided for the  
2 Commission to review prior to allowing Jasper to be included into rates.

3 **Q DID THE COMPANY USE ITS REBUTTAL OPPORTUNITY TO**  
4 **PROVIDE THE ESTIMATES OF THESE ECONOMIES OF SCALE OR**  
5 **ANY TRUE UP OF THEM FOR THIS PROCEEDING?**

6 **A** No and I believe that the Commission should be very concerned about the  
7 Company's unwillingness to provide this information at such a critical  
8 juncture in the potential ratemaking treatment of the Jasper facility. If the  
9 benefits are as convincing, unequivocal, and indisputable as the Company  
10 represents, then it should be no effort for them to provide these benefits to  
11 the Commission for review prior to the inclusion of the Jasper Facility into  
12 rates.

13 **III. THE COMMISSION DID NOT GIVE THE COMPANY CARTE BLANCHE**  
14 **APPROVAL FOR THE RECOVERY OF THE ENTIRE INVESTMENT OF**  
15 **THE JASPER GENERATION FACILITY**

16  
17 **Q HOW WOULD YOU CHARACTERIZE THE COMPANY'S CRITICISM OF**  
18 **YOUR DIRECT TESTIMONY?**

19 **A** The Company, through its rebuttal witnesses, argues in one form or  
20 another that the decisions in the past siting proceedings, as well as the  
21 last rate case, definitely approved the entirety of Jasper as a used and  
22 useful investment that should be included in rates. The Company's  
23 rebuttal argues that the Commission's decision in the Siting proceeding is  
24 final and unquestionable regarding both the prudence of the size of Jasper  
25 generating facility as well as the economies of scale benefits upon which



1 this sizing decision was based. [Lorick Rebuttal Testimony 10: 8-12;  
2 Wright Rebuttal Testimony 15:6-18 and 17:5-8.] The Company also notes  
3 that the Commission has definitively ruled that the entire 875 MW capacity  
4 is used and useful and should be allowed in rates. [Wright Rebuttal  
5 Testimony 14:9-12.] The Company argues that any issues associated  
6 with the Company's failure to conduct a competitive bidding process were  
7 addressed in prior cases and not open for review in the prior rate case.  
8 [Lorick Rebuttal Testimony 6: 10-12.]

9 **Q DO YOU AGREE THAT THE COMMISSION'S DECISION IN THE**  
10 **SITING PROCEEDING STATED THAT THERE WOULD BE COMPLETE**  
11 **RATE RECOVERY APPROVAL OF THE ENTIRE 875 MW OF THE**  
12 **JASPER GENERATION FACILITY?**

13 **A** No. The prior Siting proceeding associated with Jasper does not, as a  
14 general matter, guarantee up-front cost recovery, nor did it make an  
15 upfront used and useful determination about the asset's future disposition.  
16 As I noted in my direct testimony, there is nothing in the Commission's  
17 Order which entitled the Company to any type of pre-approval to enter  
18 Jasper into rates.

19 **Q AS A GENERAL MATTER, WHAT IS THE PURPOSE OF A SITING**  
20 **PROCEEDING?**

21 **A** Siting proceedings, or certificate of need (also known as "certificate of  
22 public convenience and necessity") proceedings, are intended to regulate  
23 major capital expenditures and balance cost, quality, and access issues

1 ensuring that only needed services and facilities are developed.  
2 Industries that require a certificate of need can include healthcare  
3 facilities, moving companies, taxi cab companies, electric power plants,  
4 providers of telephone service, natural gas storage facilities, natural gas  
5 pipelines, and water and sewer utilities. The requirements and reasons  
6 for a certificate differ among industries. But in general, they are  
7 developed to ensure that the infrastructure investment is needed, the  
8 developer is financially responsible, and is willing and able to operate the  
9 facility, and will operate the facility in a fashion that is not inconsistent with  
10 public interest.

11 **Q HOW IS THE SITING PROCESS FOR POWER GENERATION**  
12 **FACILITIES DEFINED IN SOUTH CAROLINA?**

13 A In South Carolina, the Siting proceeding has a number of defined  
14 purposes, most of which are associated with ensuring that a developer of  
15 power generation has done its due diligence regarding the need for the  
16 plant and the potential environmental impact that the facility may have on  
17 its surrounding community and the state. Both utility and competitive  
18 developers of power generation facilities are subject to the Siting process  
19 in South Carolina.

20 **Q IS IT YOUR EXPERIENCE THAT SITING PROCESSES GUARANTEE A**  
21 **DEVELOPERS A RETURN ON AND OF ITS INVESTMENT?**

22 A No. Siting proceedings are not insurance proceedings for developers of  
23 infrastructure projects. These proceedings are in place to discipline

1 potential developers, not regulators and their ultimate decisions. Since  
2 many states require both utility and non-utilities to go through this siting  
3 process, they cannot be up-front guarantors of investment recovery.

4 **Q DID COLUMBIA AND OTHER NON-UTILITY GENERATORS HAVE TO**  
5 **GO THROUGH THE SAME SITING PROCESS AS JASPER?**

6 **A** Yes, competitive developers are generally required to following the same  
7 siting procedures as regulated utilities.

8 **Q HAVE ANY PAST SITING DECISIONS BEEN LEFT OPEN FOR**  
9 **FURTHER REVIEW BY THE COMMISSION?**

10 **A** Yes. During the course of the Columbia Energy Siting proceeding, the  
11 Commission reviewed and made a ruling on whether Columbia would be  
12 subject to the requirements promulgated for regulated utilities under the  
13 Commission's jurisdiction. The Commission waived these requirements  
14 for Columbia but noted that they would "reserve the right to reexamine  
15 such matters in the future should such reexamination become necessary  
16 or appropriate." [Docket Number 2000-487-E, Order No 2001-108,  
17 Conclusions of Law No. 9]. The Commission noted that this ruling was  
18 consistent with other similarly situated applications.

19 **Q WHY IS THIS IMPORTANT?**

20 **A** Clearly, leaving open for future review the decision of whether Columbia  
21 would be classified as an unregulated merchant facility or regulated utility  
22 under South Carolina law is important. This is perhaps the ultimate  
23 discipline that regulators can place on a competitive developer in a siting

1 proceeding. For utilities, the ultimate discipline is the ultimate recovery of  
2 their investment costs into rates. This would mean that in order for the  
3 investment to be recovered in rates, it should be used and useful and  
4 developed in a cost effective manner.

5 **Q WOULD "PRE-APPROVAL" OF THE ENTIRE JASPER GENERATION**  
6 **FACILITY BE CONSISTENT WITH THE USED AND USEFUL**  
7 **DOCTRINE IN PUBLIC UTILITY REGULATION?**

8 **A** No, it is not common regulatory practice or policy for regulators to give up-  
9 front investment recovery approval to any project without first determining  
10 whether the asset is used and useful for the provision of utility service. To  
11 do so would open the flood-gates for potential over-development of  
12 assets, gold plating, and ultimately rates that are not fair, just, and  
13 reasonable.

14 **Q DO YOU AGREE WITH THE COMPANY'S POSITION THAT IF THE**  
15 **COMMISSION ACCEPTED YOUR RECOMMENDATION THAT IT**  
16 **WOULD HAVE A NEGATIVE IMPACT ON THE DEVELOPMENT OF**  
17 **POWER GENERATION IN THE REGION?**

18 **A** No. If the Commission accepts my recommendation it would simply be  
19 exercising its regulatory power to ensure that rates are fair, just, and  
20 reasonable in South Carolina by refusing to allow ratepayers to subsidize  
21 the overdevelopment of a generation facility that is used to facilitate a  
22 competitive wholesale contract with customers in another state. I believe  
23 that if the Commission were to accept my recommendation that it would

1 ultimately send a positive signal to the development of competitive  
2 generation markets.

3 **Q HAS THE COMPANY OFFERED ANY EXAMPLES OF SITUATIONS**  
4 **WHERE GENERATION INVESTMENTS HAVE BEEN STIFLED DUE TO**  
5 **REGULATORY DISALLOWANCES?**

6 **A** No. The Company's position is based completely on supposition and their  
7 witnesses offer no specific examples of generation investment decisions  
8 that have been forgone due to a reversal of a Siting Order or any  
9 disallowance for that matter were offered in any of its rebuttal testimony.

10 **Q IS IT YOUR EXPERIENCE BASED UPON YOUR OWN ACADEMIC**  
11 **RESEARCH THAT GENERATION INVESTMENTS HAVE BEEN**  
12 **STIFLED DUE TO DISALLOWANCES ?**

13 **A** Billions of dollars disallowances were assigned to the utility sector of the  
14 power industry from the late 1970s to the late 1980s. The utility sector,  
15 however, continues to invest in generating facilities despite the rather  
16 large and painful disallowance experience. Even SCE&G, which was  
17 assessed a disallowance on its Summer Nuclear Generation Station, has  
18 continued to make generation investments despite the negative initial  
19 regulatory treatment of its nuclear investment. Further, there are  
20 considerable amounts of capacity associated with non-utility generation,  
21 particularly those associated with the development of cogeneration  
22 facilities listed as qualifying facilities ("QFs"), that were shut-down due to  
23 changing regulatory requirements or contractual rules in the aftermath of

1 several legal challenges to the Public Utilities Regulatory Policies Act of  
2 1978 ("PURPA"). These project shut-downs and abandonments, many of  
3 which occurred in the early 1980s, did not prevent the later, significant  
4 development of non-utility generation, most of which was associated with  
5 cogeneration at industrial plants.

6 **Q WHAT POSITIVE OUTCOMES WOULD YOU SEE FOR GENERATION**  
7 **INVESTMENT DECISIONS IN SOUTH CAROLINA IF THE**  
8 **COMMISSION ADOPTED YOUR RECOMMENDATION?**

9 **A** It would send a positive signal to wholesale generation developers that the  
10 South Carolina Commission will hold its incumbent investor-owned utilities  
11 ("IOUs") to strict standards when it comes to building generation for native  
12 load customers. It also sends generation developers strong signals that  
13 this Commission supports fair-play that is in the best interest of its  
14 ratepayers. Moving the unneeded portion of Jasper, and its supporting  
15 NCEMC revenues from retail rates, further indicates that the South  
16 Carolina Commission will not allow IOUs to enter into ratepayer-  
17 subsidized ventures into competitive wholesale markets.

18 **Q WHAT ABOUT YOUR RECOMMENDATION OF ENTERING INTO**  
19 **COMPETITIVE BIDDING RULEMAKING?**

20 **A** Establishing a competitive bidding process would send strong signals to  
21 competitive developers of energy that the South Carolina Commission is  
22 committed to creating a balanced playing field that ensures the most  
23 reliable, flexible, and least cost resources are being secured for

1 ratepayers. A competitive bidding process would encourage greater  
2 participation in the development of South Carolina generating resources,  
3 and would further encourage innovation and efficiency.

4 **IV. THE COMPANY REFUSES TO PROVIDE QUANTITATIVE EVIDENCE**  
5 **THAT CURRENT CUSTOMERS WILL BENEFIT FROM THE**  
6 **ADDITIONAL CAPACITY DEVELOPED AT THE JASPER**  
7 **GENERATION FACILITY**

8  
9 **Q THE COMPANY STATES THAT YOUR ANALYSIS IN EXHIBIT DED-9**  
10 **IS FLAWED. DO YOU AGREE WITH THIS REBUTTAL?**

11 **A** No. The purpose of Exhibit DED-9 was to show that the revenues from  
12 the sale of capacity and energy to NCEMC do not cover the cost of  
13 constructing the additional capacity at Jasper. The Company is critical of  
14 my analysis for three general reasons:

15 (1) The analysis is not comprehensive and only looks at NCEMC  
16 contract revenues and Jasper capital costs.

17 (2) The analysis is restricted to only a three year period.

18 (3) The analysis only uses the average cost of the Jasper capacity as  
19 opposed to the incremental cost.

20 **Q DO YOU AGREE WITH THE COMPANY'S CLAIMS THAT YOUR**  
21 **ANALYSIS IS NOT COMPREHENSIVE AND IS LIMITED TO THE**  
22 **CAPITAL COSTS OF THE JASPER FACILITY?**

23 **A** No. First, the Company is incorrect that I examined only the capital costs  
24 of the Jasper facility and compared them to the NCEMC contract  
25 revenues. My analysis also included an analysis of the gas capacity costs  
26 and the operations and maintenance ("O&M") costs associated with the

1 facility. Further, I do not agree with the Company's recommendation that  
2 my analysis should have mirrored the approach originally taken by the  
3 Company in its Siting proceeding, and replicated in Exhibit DED-8. The  
4 purpose of my analysis was to determine the revenue requirement to  
5 current customers (provided in Exhibit DED-9), not examine the long run  
6 cost effectiveness of various technological options that were replicated in  
7 Exhibit DED-8.

8 **Q WHAT IS THE PURPOSE OF EXHIBIT DED-9?**

9 **A** The purpose of Exhibit DED-9 is simple: to test the Company's claims that  
10 the revenue from the NCEMC contracts offset the costs of developing the  
11 extra capacity at the Jasper facility. As my exhibit demonstrates, the  
12 revenues from NCEMC do not cover the additional costs associated with  
13 developing the additional capacity at Jasper. The analysis in Exhibit  
14 DED-9 is intentionally different than replication of the Company's Siting  
15 Proceeding analysis replicated in Exhibit DED-8. My analysis of the  
16 revenue requirement impacts of the additional capacity at the Jasper  
17 Generation Facility is important in understanding the immediate and near  
18 term ratepayer impacts of the Company's proposal to recover the  
19 remaining portion of Jasper.

20 **Q WHAT ABOUT THE COMPANY'S CLAIMS THAT YOUR ANALYSIS IS**  
21 **LIMITED BECAUSE IT ONLY EXAMINES A THREE YEAR PERIOD?**

22 **A** The Company is correct that my analysis has been conducted for only a  
23 three year period. However, I do not see this as a limitation. As I noted



1 earlier, the purpose of the analysis is not to determine the long run cost  
2 effectiveness of various technological and turbine configuration options,  
3 but to examine the current impact on ratepayers of the additional Jasper  
4 capacity. Adding the additional two years allows the Commission to see  
5 that the addition of the remaining portion of the Jasper facility into rates  
6 will not be a one-time impact on ratepayers but will last for several years.

7 **Q WHY WAS THE ANALYSIS PROVIDED IN EXHIBIT DED-9**  
8 **CONDUCTED?**

9 **A** The analysis was conducted as an attempt to check the accuracy of the  
10 Company's assertion in discovery that the "NCEMC contracts off-set the  
11 additional cost of proceeding with construction of Jasper Plant as a three-  
12 unit, 875 MW plant." [Response to Columbia Energy RFI 2-10(a).] The  
13 results of Exhibit DED-9 show that this is not the case. For example, if the  
14 Commission includes the entire cost of the Jasper facility in rate base and  
15 offsets these costs with the revenue from the NCEMC revenues,  
16 customers will be required to pay an additional \$16.5 million a year to  
17 recover the costs associated with the larger Jasper plant. Customers will  
18 incur this cost until the Commission resets rates at some point in the  
19 future. If the Company does not ask for another rate increase until the end  
20 of the 250 MW sale to NCEMC, i.e. 2013, then customers will be forced to  
21 pay an additional \$148.5 million (\$16.5 million times 9 years) to recover  
22 the cost of the additional capacity.

**1 Q HOW DOES THIS COMPARE TO THE COMPANY'S OWN ANALYSIS**  
**2 OF THE RATEPAYER IMPACTS?**

**3 A** Exhibit DED-8 presents an analysis of the Company's estimated revenue  
**4** requirement for various different technological options over a 20 year  
**5** period. The problem with using this analysis for ratemaking purposes is  
**6** that it essentially assumes that rates are adjusted every year (i.e.,  
**7** depreciation, load growth, etc are accounted for on an annual basis in the  
**8** analysis). This is not necessarily a bad thing on its face, but it does fail to  
**9** account for the fact that rates are rarely trued-up on a year to year basis.  
**10** The Company's analysis, for instance, shows a \$7.2 million short fall in the  
**11** first year by choosing the larger generation option (i.e., the CC875 option).  
**12** If the Company did not file a rate case for a 9 year period (the end of the  
**13** NCEMC contract), then ratepayers would pay \$64.8 million (\$7.2 million  
**14** times 9 years) since rates would not be rebalanced (by assumption)  
**15** during the interim period.

**16 Q WERE YOU ABLE TO EXAMINE THE UNDERLYING DATA,**  
**17 CALCULATIONS, AND ASSUMPTIONS USED TO DEVELOP THE**  
**18 ANALYSIS REPLICATED IN EXHIBIT DED-8?**

**19 A** No. The Company has refused to provide Columbia Energy this data  
**20** based on relevance grounds.

**21 Q ARE THERE ANY OTHER IMPACTS THAT HAVE ALREADY**  
**22 OCCURRED TO RATEPAYERS THAT THE COMMISSION SHOULD**  
**23 RECOGNIZE ?**

1 A Yes, the analysis provided in Exhibit DED-9 does not take into  
2 consideration the fact that the Commission allowed Jasper CWIP in rate  
3 base in the last rate proceeding. Therefore, \$27,035,520 of the capital  
4 cost (the AFUDC that would have accrued on the plant) of the plant has  
5 already been paid for by ratepayers. [Response to Columbia Energy RFI  
6 2-12.] If the additional costs of customers, in the form of higher rates,  
7 were taken into consideration the impact on customers would be greater.

8 **Q WHAT ABOUT THE COMPANY'S CRITICISMS ABOUT USING**  
9 **AVERAGE COSTS IN YOUR ANALYSIS?**

10 A The Company has criticized my use of the average cost in Exhibit DED-9  
11 but never explains why use of the average cost is incorrect nor do they  
12 offer an alternative incremental approach. [Lynch Rebuttal Testimony  
13 4:12-15.] Regardless, I used the average cost of the additional capacity  
14 because it would be inappropriate to use an incremental cost. The  
15 average cost per kW associated with the Jasper facility of \$573 could not  
16 have been obtained without constructing the entire facility. It would not be  
17 appropriate to assume that all of the purported economies of scale  
18 associated with building the larger facility should be assigned to the  
19 additional 426 MW of capacity. Without the original 449 MW of capacity  
20 the alleged economies of scale associated with building the large facility  
21 could not have been achieved. Therefore, in terms of measuring the  
22 impact of the additional capacity of the plant, I believe that is appropriate  
23 to use the average cost rather than some undefined and undocumentable

1 incremental costs.

2 **Q. THE COMPANY CLAIMS THAT YOU BELIEVE THE NCEMC SALE IS**  
3 **NOT IN CUSTOMERS' BEST INTEREST. IS THIS A CORRECT**  
4 **CHARACTERIZATION OF YOUR TESTIMONY?**

5 A. Unfortunately, yes it is. The Company mischaracterizes my testimony by  
6 stating that I believe the "NCEMC sale is somehow not in customers' best  
7 interest." [Lynch Rebuttal Testimony 5:9] Clearly, the sale of some of the  
8 Company's excess capacity to NCEMC is better than no sale of its excess  
9 capacity. Nevertheless, my testimony demonstrates that the sale of  
10 capacity and energy to NCEMC does not completely insulate customers  
11 from the additional costs associated with building the larger 875 MW  
12 Jasper facility. Because of this shortfall, South Carolina retail customers  
13 are in effect subsidizing the NCEMC sale.

14 **V. THE COMPANY CONTINUES TO UNFAIRLY RELY UPON ITS PAST**  
15 **RFP PROCESS AS A DEFENSE**

16 **Q DO YOU AGREE WITH THE COMPANY'S POSITION THAT ISSUES**  
17 **ASSOCIATED WITH COMPETITIVE BIDDING ARE NOT RELEVANT**  
18 **TO THIS PROCEEDING?**

19  
20 A No. I noted in my direct testimony that the Commission clearly left this  
21 issue open for investigation at the time that the Company proposed to  
22 move the remaining portion of the Jasper facility into rates. In response to  
23 the CA's motion on competitive bidding, the Commission noted that:

24 ...should SCE&G file a rate application including this plant in  
25 rate base, the Consumer Advocate will have an opportunity

1 to address this issue [i.e., competitive bidding] during that  
2 rate proceeding. [Order No. 2002-19 at 15.]

3  
4 This rate case represents the appropriate time to review the Company's  
5 failure to conduct an updated RFP process.

6 **Q HAS THE COMPANY AGAIN RELIED ON ITS PAST RFP PROCESS AS**  
7 **A DEFENSE FOR DEVELOPING JASPER AS A MUCH LARGER UNIT?**

8 **A** Yes. The Company notes that it conducted an RFP process during the  
9 1998 time period and even during "high point" of competitive development,  
10 had doubts about the ability of competitive providers to meet any service  
11 obligations. [Lorick Rebuttal Testimony, 6:20-23] Further, the Company  
12 brings out the specter of Enron as proof of how dangerous competitive  
13 markets can be. What is not clear, and not verifiable, is:

14 (1) How reasonable the competitive bidding process was during this  
15 1998 period.

16 (2) What safeguards the Company included in the evaluation process  
17 to ensure that reliable, in addition to least cost, power was  
18 requested from the market.

19 (3) The breadth to which the Company solicited the market.

20 The Company has refused to provide these details because they claim  
21 they are not relevant to this proceeding, yet they continue to use their past  
22 RFP experience to denigrate competitive bidding.

1   **Q    ARE THE COMPANY'S CRITICISMS OF COMPETITIVE BIDDING**  
2   **CONSISTENT WITH THEIR ACTIONS?**

3   A    No. The Company's criticism of a competitive bidding process is not  
4       consistent with its actions. It appears that the Company is ready, willing,  
5       and able to participate in competitive wholesale markets, and in offering  
6       responses to proposals submitted by other utilities like NCEMC. As I  
7       noted in my direct testimony the Company was able to meet all of the  
8       safeguards identified by NCEMC in its RFP, and ultimately won the award,  
9       but is unwilling to design such beneficial measures for their own  
10      ratepayers.

11   **Q    THE COMPANY NOTES THAT IT CONDUCTED AN RFP PROCESS**  
12   **AROUND 1998. DO YOU AGREE WITH THE COMPANY'S**  
13   **CHARACTERIZATION OF 1998 AS BEING THE "HIGH POINT" OF**  
14   **MERCHANT DEVELOPMENT?**

15   A    No. The Company notes that it conducted an RFP process during the  
16       "high point" of merchant development. [Lorick Rebuttal Testimony, 6:21.]  
17       However, the market has changed considerable since that time. As  
18       shown in Exhibit DED-SR-2, the market for merchant generation has  
19       changed significantly. In 1998, non-peaking merchant capacity in VACAR  
20       was an estimated 3,525 MW. Today, that total has risen to 5,173, an  
21       increase of almost 50 percent. In SERC in 1998, non-peaking merchant  
22       capacity was estimated to be 6,692 MW. In 2001 that capacity increased  
23       to over 10,000 MW and in 2003 it was over 30,000 MW. This represents

1 over a 350 percent increase in merchant capacity since the last time the  
2 company solicited the market. The amount of generation capacity  
3 available to the Company will only increase. In VACAR an estimated  
4 1,290 MW is under construction with an additional 578 being planned. In  
5 SERC 4,542 MW is under construction and an additional 8,717 is being  
6 planned.

7 **Q IS IT YOUR OPINION THAT THE CHANGES IN MARKET CONDITIONS**  
8 **"DATE" THE COMPANY'S PRIOR RFP EXPERIENCE?**

9 **A** Yes there has been a considerable amount of development since that  
10 time, much of which was still speculative in the period prior to 1998.

11 **VI THE SUMMER DISALLOWANCE DECISION IS APPROPRIATE FOR**  
12 **CONSIDERATION IN THIS PROCEEDING**

13 **Q THE COMPANY NOTES THAT THE DISALLOWANCE DECISION IN**  
14 **THE SUMMER PROCEEDING IS NOT AN APPROPRIATE**  
15 **PRECEDENT. DO YOU AGREE?**

16 **A** While I agree that there are a number of differences between the past  
17 proceeding and the current one, I do not agree that the precedent should  
18 be summarily dismissed in this proceeding. The company lists five  
19 reasons why the Commission's past disallowance decisions regarding the  
20 Summer Nuclear Station is not applicable in this proceeding. To  
21 summarize, these reasons include:

- 22 (1) There was no specific customer for the excess 400 MW of excess  
23 system capacity. In the current proceeding, there are two off-  
24 system sales contracts to NCEMC.  
25

1 (2) The reserve margins that occurred during this time period were  
2 considerably in excess of the planning standard (i.e., reserve  
3 margins of some 37 percent at that time).

4 (3) The rate increase proposed during that period was considerably  
5 larger than the current proposed increase (i.e., 34 percent  
6 proposed increase then versus a proposed 5.7 percent increase  
7 now)

8 (4) The disallowance levied then was based upon 400 MW of average  
9 plant, not a unit-specific investment like Jasper which is "a plant  
10 that is used regularly for serving native load customers." [Marsh  
11 Rebuttal Testimony, 6:4-5.]

12 **Q LET'S ADDRESS THE SECOND AND THIRD POINTS FIRST, DO YOU**  
13 **AGREE WITH THE COMPANY'S POSITION?**

14 **A** Somewhat. The rate increases proposed during that time period, as well  
15 as the reserve margins, appear to have been considerably higher than  
16 what has been proposed, or forecasted, in this proceeding. This should  
17 not, however, serve as a defense for the high forecasted reserve margins  
18 that I presented in my direct testimony. Exhibit DED-1 in my direct  
19 testimony notes that reserve margins could be higher than the upper band  
20 of the Company's traditional planning region for several years. The fact  
21 that these are not as extreme as those existing in the mid-1980s provides  
22 weak support for the Company's current proposals to include the  
23 remaining portion of Jasper into rates.



1   **Q   WHAT ABOUT THE COMPANY'S POSITION THAT THE CURRENT**  
2   **EXCESS CAPACITY IS TIED TO AN OFF-SYSTEM SALE?**

3   A   While this is a circumstance that is different than the nuclear disallowance  
4       proceeding, I am not sure why this is an important distinction for the  
5       Commission. As I noted in my direct testimony, my recommendation is  
6       actually more beneficial to the Company than the past disallowance  
7       experience associated with the Summer Generating Station. Under my  
8       recommendation, the supporting revenues from the NCEMC off-system  
9       sale would be moved along with the costs associated with the excess  
10      capacity created by Jasper. If the Company is correct that the NCEMC  
11      contract revenues cover the costs of developing the additional capacity,  
12      then there should be no financial harm to the Company by deferring the  
13      movement of the asset into rates until it is useful for South Carolina  
14      customers. If the Company is not correct, and the NCEMC revenues do  
15      not cover the costs of developing the additional capacity at Jasper, then at  
16      least they will have some revenues to offset the costs: an option that was  
17      not available at the time of the Summer disallowance.

18   **Q   THE COMPANY STRESSES IN ITS REBUTTAL TESTIMONY THAT**  
19   **THE DISALLOWANCE WAS BASED UPON A SYSTEM AVERAGE**  
20   **CAPACITY AMOUNT AND NOT A UNIT-SPECIFIC LEVEL. IS THAT**  
21   **IMPORTANT IN THIS PROCEEDING?**

22   A   I do not believe that it is. The excess capacity created by Jasper is still  
23       excess system capacity. The Company has entered into a system-based

1 sale (with NCEMC) in an attempt to offset the excess system capacity  
2 created by a specific unit. The Company is allowing North Carolina  
3 customers to benefit from a system-based sale, but asking for South  
4 Carolina customers to pay for the unit-specific costs in which they get no  
5 little to no current benefits. This is simply not fair to ratepayers.

6 **Q THE COMPANY NOTES THAT JASPER IS BEING USED ON A**  
7 **REGULAR BASIS TO SERVE NATIVE LOAD CUSTOMERS. DO YOU**  
8 **AGREE?**

9 **A** No. The Company notes that my proposal would "...exclude from retail  
10 rate base investment in the Company's newest and most efficient gas fired  
11 generation – a plant that is used regularly for serving native load  
12 customers because of its efficiency." [Marsh Rebuttal Testimony, 6:2-5,  
13 emphasis added] As seen in Exhibit DED-SR-1, the Jasper Generating  
14 Facility was dispatched roughly 25 percent of the time in 2004 and is  
15 forecasted to be dispatched by roughly the same percentage in 2005.  
16 This hardly seems like the plant is being used on a regular basis. Further,  
17 if the facility is being used on a regular basis for native load customers,  
18 then the NCEMC contracted capacity amounts that Jasper supports need  
19 to be included in the Company's reserve margin calculation. As I have  
20 already shown in my direct testimony, including these amounts leads to  
21 reserve margins that are in excess of those traditionally used by the  
22 Company, and provided to the Commission in past proceedings.

1   **Q     THE COMPANY REFERS TO THE DISALLOWANCE AS A PHASE-IN.**  
2           **IS IT POSSIBLE THAT THE EXCESS CAPACITY CREATED BY**  
3           **JASPER COULD ALSO BE PHASED-INTO RATES?**

4   **A     Yes. At a later date, when the need for additional capacity to serve South**  
5           **Carolina customers becomes apparent, the Company could bid the**  
6           **remaining portion of the Jasper Generation Facility as a resource to serve**  
7           **native load customers.**

8   **Q     THE COMPANY CLAIMS THAT YOUR PROPOSAL WOULD**  
9           **PERMANENTLY REMOVE JASPER FROM RETAIL RATE RECOVERY.**  
10          **IS THIS TRUE?**

11   **A     No and it represents another mischaracterization of my direct testimony. I**  
12          **clearly note above, and in my direct testimony, that the Company should**  
13          **be allowed to bid the additional capacity into a competitive bidding**  
14          **process at the time in which capacity is needed by native load customers.**  
15          **Nothing should prevent the Company from participating in this process.**  
16          **The Company will, however, be required to compete with other regional**  
17          **generation providers, and prove that the SCE&G bid is the lowest cost-**  
18          **most reliable resource available to South Carolina customers.**

19   **Q     DOES IT APPEAR THAT THE COMPANY IS WILLING TO PROVIDE**  
20          **THE JASPER CAPACITY AT A LATER DATE?**

21   **A     It may not be. The Company notes in its rebuttal testimony that if my**  
22          **recommendation is accepted then "...there is no guarantee that this**  
23          **Jasper capacity at issue would not be sold off into states with higher**

1 electric prices than South Carolina, and in the long term never benefit  
2 SCE&G's customers." [Wright Rebuttal Testimony, 20:11-13.] I interpret  
3 this to mean that if the Company can get higher returns for this power  
4 elsewhere in the future, then it will do so. This is unfortunate since this is  
5 the exact type of behavior that many IOUs claim motivates merchant  
6 power providers. Namely, that merchants cannot be trusted to provide  
7 reliable low-cost power for retail ratepayers in the future and will only sell  
8 power where prices are high.

## 9 **VII CONCLUSIONS**

### 10 **Q WHAT ARE YOUR CONCLUSIONS AND RECCOMENDATIONS?**

11 **A** The Company has not provided any additional information in its rebuttal  
12 testimony that sheds any light onto the issue of whether the Jasper  
13 Generation Facility will be a used and useful asset for ratepayers in the  
14 test year upon which its current rate case is based. The additional  
15 capacity associated with the Jasper Facility is excessive, contributes to  
16 unreasonably high reserve margins when appropriately measured, will be  
17 dispatched relatively infrequently, and will be used to facilitate a system  
18 sale to customers in North Carolina. The additional capacity is clearly not  
19 used and useful for current ratemaking purposes and should be removed,  
20 along with its corresponding NCEMC revenues, for retail ratemaking  
21 purposes. I continue to recommend that the Commission enter into a  
22 rulemaking proceeding for the purpose of creating a competitive bidding  
23 requirement for South Carolina's utilities. This would be the best means to

1           ensure that the least cost, most reliable resources are being secured for  
2           South Carolina's ratepayers.

3   **Q   DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY FILED**  
4   **ON OCTOBER 27, 2004?**

5   **A   Yes it does.**

# Jasper Statistics from Fuel Filing

	Jasper Combined Cycle					Capacity Factor %
	Fuel Used Gbtu	Fuel Cost \$000	Fuel Cost \$/Mbtu	Generation GWh	Heat Rate Btu/kwh	
May-04	1,000	\$ 5,571	\$ 5.77	131	7,629	20.03%
Jun-04	1,722	\$ 9,970	\$ 5.79	230	7,481	36.33%
Jul-04	2,215	\$ 12,895	\$ 5.82	299	7,409	45.67%
Aug-04	2,106	\$ 12,279	\$ 5.83	284	7,422	43.34%
Sep-04	1,138	\$ 6,598	\$ 5.80	149	7,647	23.48%
Oct-04	1,097	\$ 6,372	\$ 5.81	141	7,805	21.46%
Nov-04	485	\$ 2,892	\$ 5.96	60	8,031	9.33%
Dec-04	469	\$ 2,875	\$ 6.13	59	7,997	8.77%
Jan-05	460	\$ 2,880	\$ 6.26	59	7,842	8.77%
Feb-05	414	\$ 2,562	\$ 6.19	52	7,972	8.60%
Mar-05	574	\$ 3,435	\$ 5.98	72	7,942	10.81%
Apr-05	780	\$ 4,205	\$ 5.39	100	7,801	17.82%
May-05	1,336	\$ 7,039	\$ 5.27	177	7,537	38.04%
Jun-05	1,872	\$ 9,907	\$ 5.29	251	7,454	39.64%
Jul-05	2,290	\$ 12,186	\$ 5.32	310	7,393	47.31%
Aug-05	2,468	\$ 13,137	\$ 5.32	334	7,385	51.04%
Sep-05	1,295	\$ 6,852	\$ 5.29	172	7,525	27.16%
Oct-05	827	\$ 4,386	\$ 5.30	106	7,811	16.18%
Nov-05	433	\$ 2,373	\$ 5.47	55	7,948	8.43%
Dec-05	442	\$ 2,490	\$ 5.64	56	7,945	8.31%

# Comparison of Merchant Capacity 1998, 2001 and 2003

Docket No. 2004-178-E  
David E. Dismukes, Ph.D.  
Exhibit No. \_\_\_\_ (DED-SR-2)  
Page 1 of 1

Plant Status	South Carolina			VACAR			SERC		
	1998* ----- (MW)	2001	2003	1998* ----- (MW)	2001	2003	1998* ----- (MW)	2001	2003
Operational	118	95	95	3,525	3,296	5,173	6,692	10,374	30,537
Under Construction	n.a.	1,245	-	n.a.	1,718	1,290	n.a.	25,759	4,542
Planned	n.a.	4,478	-	n.a.	13,889	578	n.a.	59,580	8,717

Note: \* 1998 MW based on nameplate capacity, 2001 and 2003 MW based on summer rating.  
n.a. is 'not available'.  
Does not include peaking facilities.

In Re:

## CERTIFICATE OF SERVICE

Mary F. Cutler



**BEFORE  
THE PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA  
DOCKET NO. 2004-178-E**

In Re:

Application of South Carolina )  
Electric & Gas Company for )  
Approval of an Increase in Electric )  
Rates and Charges )  
\_\_\_\_\_ )

**CERTIFICATE OF SERVICE**

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This is to certify that I, Mary F. Cutler, a legal assistant with the law firm of Robinson, McFadden & Moore, P.C., have this day caused to be served upon the person(s) named below the **Surrebuttal Testimony of David Dismukes** in the foregoing matter by placing a copy of same in the United States Mail, postage prepaid, in an envelope addressed as follows:

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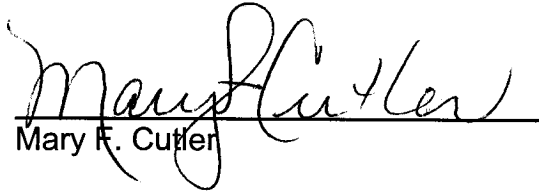
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Dated at Columbia, South Carolina this 27th day of October 04.



Mary F. Cutler